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TO RUEHC/SECSTATE WASHDC PRIORITY 0717
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 3711
RUEHBJ/AMEMBASSY BEIJING 1529
RUEHKO/AMEMBASSY TOKYO 1396
RUEHIT/AMCONSUL ISTANBUL 1965
RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NSC WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHMFISS/CDR USCENCOM MACDILL AFB FL
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUEHVEN/USMISSION USOSCE 2475

C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000551

SIPDIS

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STATE FOR SCA/CEN, EEB
STATE PLEASE PASS TO USTDA DAN STEIN
COMMERCE FOR HUEPER
TREASURY FOR BAKER/LANIER

E.O. 12958: DECL: 05/01/2017
TAGS: [PGOV](#) [PREL](#) [EIND](#) [ETRD](#) [EPET](#) [SOCI](#) [TX](#)
SUBJECT: AT LONG LAST, A UNIFIED EXCHANGE RATE IN
TURKMENISTAN -- BUT LOCALS FEEL THE PAIN

REF: A. ASHGABAT 523
[1](#)B. ASHGABAT 366

Classified By: CDA Sylvia Reed Curran for reasons 1.4 (B) and (D).

[1](#)1. (SBU) SUMMARY: On May 1, the Central Bank of Turkmenistan announced a unified exchange rate of 14,250 manat per \$1. The final impact of the four-month process for unifying the dual exchange rate is yet unclear. Immediately evident is the fact that the arbitrary devaluation of the dollar has caused significant disturbances throughout the economy. However, the substantial appreciation of the manat -- about 40 percent in the last six months -- is felt by many average citizens, including those paid in dollars, those who trade and do business in dollars, those who own real estate, and those who keep savings "under the mattress" in dollars. Since practically everyone in Turkmenistan does not trust banks, this means the entire country is feeling the pinch of this change. While one foreign businessman feels that the unified rate is a very positive step in terms of making the business climate more welcoming to foreign investors, and some locals are thrilled that the devaluation of the dollar is not as low as it could have been, it may very well be that no real change has taken place. There is a strong possibility that the new unified rate -- which many feel is unrealistically high versus the value of the dollar -- will prove unsustainable for the marketplace and that continued prevalence of government corruption will allow for the emergence of a black market. END SUMMARY.

AS OF MAY 1, A UNIFIED EXCHANGE RATE

[1](#)2. (C) Following two devaluations in the past 12 days -- and as predicted by post sources (Refs. A and B) -- the Central Bank of Turkmenistan devalued the dollar and unified the commercial and the official exchange rates on May 1. Official currency exchange points are buying \$1 for 14,250 manats, and are selling \$1 for 14,000 manat. The short

article in official government Russian-language newspaper "Neytralniy Turkmenistan" did not specifically state if exchange rate changes were coming to a halt, but did mention that the Central Bank is able to satisfy the demand for foreign currency and that it can maintain this rate in the future. The World Bank representative in Turkmenistan (please protect) believes that the government wants to maintain the current exchange rate until the end of the year.

EXPATRIATE VIEWS EBRD

13. (C) European Bank for Reconstruction and Development (EBRD) Ashgabat Office Head Tony Myron said that Deputy Chairman for Economy and Finance Hojamurat Geldimuradov told an EBRD delegation last week that the exchange rate would land between 14,000-15,000 manat per \$1 "before May 5." In response to Myron's question about thin commercial margins, Geldimuradov said that the Government of Turkmenistan would provide subsidies to textile companies. Myron said the dollar devaluation will most affect real estate owners, shuttle traders, and foreign entities such as oil and gas companies, other businesses, international organizations and foreign missions.

14. (C) Myron agreed that the new exchange rate is completely artificial. Since already high government revenues will continue to increase -- especially because Iran recently agreed to match the Russian price of \$130 per thousand cubic meter (septel) -- the government has the financial resources to maintain the current exchange rate as long as it wants to.

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BRITISH PETROLEUM

15. (C) A foreign businessman whose company is in the process of setting up and registering an office in Ashgabat, Dan Bliss of BP, was extremely positive, stating that this was a strong indication of the government's commitment to attracting foreign investment. This, he said, will make doing business less difficult, because foreign businessmen are not being discriminated against. (One example is that hotels that cater to foreigners are now doing the exchange rate for incidental expenses at the new unified rate of 14,215 manat to the dollar, rather than the old official rate of 6,250 manat to the dollar.) He noted that he was in Uzbekistan during exchange rate unification there, when Uzbek President Karimov used the unification and manipulation of the exchange rate to get rich. Turkmenistan's unification process seems to be more focused on improving the foreign investment climate.

DOMESTIC CONSUMER VIEWS

16. (SBU) At an MTS cellular phone service unit, a line of people waited to top up their cell phones, despite the fact that MTS raised its rate from 6,250 to 14,250 manat. MTS raised the rate in reaction to the unification of the official and commercial rates.

17. (C) It appears from spot checks that restaurants have also been visibly less crowded in recent days. An Embassy employee mentioned that sales of imported cars will also feel adverse effects due to import taxes that were previously calculated using the official rate, which is now doubled. Also, the devalued dollar will also cause the manat price of the vehicles to rise.

REPORTS FROM THE STREET: BLACK MARKET

18. (SBU) Throughout the four months of the unification process and exchange rate instability, a healthy black market for exchange has existed. Illicit traders have taken advantage of the relative scarcity of manat by trading dollars at a lower rate. For example, when the commercial

rate was 17,430, black marketers routinely sold manat at 14,000. The prevalence of such traders demonstrates a continued willingness -- or inability -- of the local government to stop unofficial trade in currency. All indications are that, while today's unification was likely a reaction to increasing currency speculation over recent days, it will not bring the black market to an end. There is a continued strong preference for holding savings in foreign currency, the most prevalent of which remains dollars.

¶9. (C) Myron said that the extra manat being held by individuals due to speculative activity over two weeks should add to the inflation problem. He added that "everyone will be watching the black market to watch for a gap." There is a significant potential that the black market will offer more attractive rates than the current rate of 14,250.

¶10. (U) So far, according to spot checks in markets, prices for food products have not changed. Ticket prices on Western airlines such as Lufthansa and Turkish Airlines have also remained stable as their prices are pegged to the euro.

¶11. (C) COMMENT: If the current rate proves to be stable, eliminating uncertainty in the marketplace, the reality that dollars -- and thus imports -- are now cheaper should bring consumer prices down in the long term. More importantly, however, is the notion that 14,250 manat for \$1 is completely arbitrary. Should the dollar prove more valuable than

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Turkmen officials have guessed, it is likely that the same corrupt government officials who previously benefited from a black market in exchange will do so again -- begging the question, has anything changed? END COMMENT.
CURRAN